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STATE FOR EUR/CARC, EUR/FO, EUR/RPM, EEB/IFD/OIA AND EEB/CBA
COMMERCE FOR 4231 DANICA STARKS

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TAGS: PREL PGOV BEXP EFIN GG

SUBJECT: GEORGIAN INVESTIGATION OF PATARKATSISHVILI
BUSINESS INTERESTS AFFECTS U.S. INVESTORS

Classified By: Ambassador John F. Tefft, reason 1.4(b) and (d)

¶11. (C) Summary: The closure of Imedi television and the investigation of its finances and operations by the Government of Georgia has made headlines around the world. The Government has also begun investigation of other businesses in which oligarch Badri Patarkatsishvili is a principal investor. On November 20, the Government of Georgia took action to impose temporary administration by the National Bank of Georgia on Standard Bank, a Tbilisi bank that is owned by Badri Patarkatsishvili and a group of other investors, including some American citizens associated with the Salford Group. The same day, it also entered and seized records from two other businesses owned by Patarkatsishvili and Salford. It has closed not only the Patarkatsishvili-controlled TV station Imedi, but also an amusement park he owns in Tbilisi with Salford. Not all of Salford's and Patarkatsishvili's interests have been impacted, however. Salford owns an interest in one of the two largest cell phone companies in Georgia, Magticom. No action against Magticom or other communications assets owned by Salford in Georgia has been reported. However, an American citizen director of Salford has been questioned and named a suspect in an influence peddling case that is not altogether convincing, at least thus far as explained by the government. The Embassy has made it clear to the GOG that while we do not countenance criminal activity and cannot interfere in a criminal investigation, we are extremely concerned about the use of legal processes for political ends by the government. End Summary.

STANDARD BANK UNDER ADMINISTRATION

¶12. (C) Salford Group is an American-based company that is involved in financing and managing a number of investment projects in Georgia for Patarkatsishvili. The National Bank of Georgia (NBG), the country's central bank, states that it took control of Standard Bank because depositors were withdrawing large amounts of money from the bank, putting its solvency at risk. The bank's American shareholders contend that the government influenced several of the bank's large customers to withdraw their funds and thereby manufactured a liquidity problem that permitted it to take control of a major asset owned by Patarkatsishvili, who is a rich, powerful and determined foe of the government. The government denies it influenced the bank's customers, but admits that some withdrawals may have been motivated by customers' concerns about the bank's close association with Patarkatsishvili. It also alleges that Patarkatsishvili made withdrawals himself, and is using the bank as a conduit for cash to pay demonstrators and anti-government agitators.

THE RUKHADZE CASE

¶3. (C) Besides its administrative action against Standard, the government has opened a criminal investigation of Irakli Rukhadze, a dual Georgian-American citizen and the managing director of Salford Group, which owns Standard Bank. Rukhadze was stopped at the Tbilisi airport on his way out of the country and questioned for several hours on November 20. He is not yet charged, but is a "suspect" in a case of influence peddling in violation of Georgian law. According to the government, Rukhadze met with the owner of People's Bank of Georgia, Irena Jincharadze, and offered to intercede with the Bank of Georgia to resolve a dispute between People's Bank and the NBG in return for Jincharadze's agreement to a merger of Standard and People's. Rukhadze allegedly recruited a Standard Bank director to help him, and this man actually met with an NBG officer to try to persuade her to resolve the dispute. Documents provided to the Embassy state that the facts are evidenced by tape-recorded and videotaped conversations. Rukhadze has told the Embassy that many of the questions posed to him during his interrogation related not to the influence peddling case but to his relationship with Patarkatsishvili and the events of November 7 in general. He believes the GOG is mistaken to regard Salford as an alter ego of Patarkatsishvili, because Salford has many other investors other than Patarkatsishvili and many business interests that are entirely separate.

SALFORD'S CONCERNS

¶4. (C) On November 27, Americans Paul Blyumkin, Peter Nagel and other Salford officers visited the Ambassador. They described Standard as being a large part of Salford's overall

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portfolio of investments and repeated their charges that the government has influenced large depositors, including Telasi, a Tbilisi electric utility, and Azerbaijan International Bank, to withdraw their deposits. In the case of the Azerbaijan bank, the call allegedly was made by Vano Merabishvili, the Minister of Internal Affairs, himself. Rukhadze, who was not present at the meeting, has told us that Ministry of Internal Affairs officer who entered the bank on November 20 took away a list of Standard's clients, under threat of destroying equipment "like at Imedi", the television station forcibly closed on November 7. According to Rukhadze, the lists have been used by government officials to locate clients and pressure them to move their accounts out of the bank. The Salford executives said that despite the withdrawals, Standard's liquidity ratios had not slipped below the required level when the NBG took action. Nevertheless, they believe Standard will be liquidated. They said the new Prime Minister, Lado Gurgenidze, has refused to allow NBG staff to sit down with the bank's staff to discuss and work out their problems. PM Gurgenidze is the former CEO of the Bank of Georgia, and the Salford investors allege that the Bank of Georgia has quickly approached Standard's customers and offered to replace the services the customers had been receiving from Standard. They also claim that Giorgi Kadagidze, head of Georgia's Financial Monitoring Service, to whom the NBG has given charge of Standard, has begun selling off loans to other banks. The investors also raised their concerns about what they view as the trumped-up criminal charges that may soon be brought against Rukhadze.

¶5. (C) Other Salford/Patarkatsishvili projects have been subject to police action and investigation in recent days. On November 7, masked law enforcement officers entered and locked up Mtatsminda Park, an amusement park, without warning, explanation or court-issued documents. The only explanation Salford has received for the action is a television appearance by the Tbilisi deputy mayor, who claimed Mtatsminda had not paid its November rent to the city. Rukhadze told us the payment was not due until

November 17. On November 20, besides Standard Bank, the offices of a Salford-owned Internet service provider, Telenet, and the bottler of Borjomi mineral water, Georgia Glass and Mineral Water (GG&MW), were occupied by the enforcement division of the Ministry of Finance's Revenue Service, who took financial records and computers away for investigation. Salford has ownership interests in the cellular telephone company Magticom, the cable television company Ayety, and other communications companies in Georgia through Metromedia, Inc., none of which have reported trouble with the government.

THE GOVERNMENT EXPLAINS ITSELF

¶6. (C) After receiving a complaint from Rukhadze about his detention for questioning, the Ambassador called Eka Sharashidze, Chief of Staff for President Saakashvili, on November 21. He raised concerns about the use of criminal cases such as that opened against Rukhadze, and tax and other legal actions against businesses such as GG&MW, being used as political tools. He said he wanted to be sure that investigations of companies in which American investors had interests fully met legal standards and were not politically motivated. Sharashidze said she would investigate the situation. Rukhadze later reported that documents and records seized from GG&MW and Telenet were returned on November 22, apparently as a result of intercession by the Embassy and other diplomatic missions.

¶7. (C) On November 26, the Ambassador discussed the Standard Bank case with PM Gurgenidze. Gurgenidze said he had met with Rukhadze earlier in the day. He said that the NBG had taken control of Standard because the bank was experiencing severe liquidity problems, caused by Patarkatsishvili rapidly drawing down reserves. There was a risk of a run on the Bank and possibly a broader banking crisis in Georgia, he said. He said that bank examiners had discovered that Patarkatsishvili had recently wired USD 20 million to Standard, and one of his aides had then withdrawn the money in cash, presumably to finance political activities in Georgia. Gurgenidze said that Patarkatsishvili was apparently using Standard Bank and GG&MW because they are cash producers which can fund his political activities. He told the Ambassador he had reviewed the file on Rukhadze, and that as a banker himself, he felt that Rukhadze was at a minimum involved in unethical practices. Gurgenidze was satisfied that responsible Georgian authorities are engaged in a "measured, pre-emptive law enforcement action" and not a

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political vendetta against Patarkatsishvili and his associates. The Ambassador again stressed that the USG wants the law to be applied fairly, and specifically had concerns in this case because American citizens are involved.

¶8. (C) On November 27, following the meeting with Salford executives, the Deputy Chief of Mission discussed the Rukhadze and Standard Bank cases with Deputy Prosecutor General Nika Gvaramia. Gvaramia stressed that Rukhadze is only a suspect, and not charged with a crime at this time, although an investigation is underway to determine if the talks between Rukhadze and Jincharadze were "just business" or something criminal. The police have 30 days to make a case, he said. Gvaramia reiterated that the government acted against Standard Bank because of concerns about its liquidity, caused by Patarkatsishvili's withdrawal of up to USD 40 million. He said that the temporary administration will end when the liquidity problem is resolved. Asked about alleged coercion of Standard clients to withdraw money, Gvaramia said he doubted a government official like Merabishvili would make such a call in person to the Azerbaijani bank, since it would quickly become public. He said he would make inquiries as to who called Telasi.

THE CHOICE: IGNORE CRIMINALITY OR TAKE THE HEAT FOR ACTING?

19. (C) Summing up, the DCM told Gvaramia that the government's moves against Imedi television, Standard Bank and the other Patarkatsishvili businesses, coupled with the arrest and exile of Saakashvili's other major foe, Irakli Okruashvili, have raised serious questions about the government's use of legal procedures for political purposes. They could impact negatively on Georgia's chances to enter NATO and its image in the OSCE and in Washington. Gvaramia admitted that the current situation is damaging to Georgia politically and economically, and the effects could last as much as five or six years. He said that it has become common in Georgia for criminally linked people to call themselves politicians and protect themselves by claiming immunity. In Okruashvili's case, he said, Okruashvili knew charges were coming and intentionally made a political splash to head them off. Patarkatsishvili, too, is under investigation, which will continue even if he is a candidate for president, although the government would take no action against his person, Gvaramia said. Gvaramia declared that political opposition cannot be used as a shield against prosecution. He insisted the government cannot ignore criminal activity among the opposition, and if it does, it would have to ignore corruption among National Movement politicians as well. He compared the current situation to Shevardnadze's administration, when the former President made his political opponents virtually immune and thereby happy and compromising. But the government then becomes a hostage of the opposition, he said. The government is faced with a very hard choice, he concluded, either to ignore criminal activity or to take the heat from critics at home and abroad.

TEFFT